SYNDICATE REPORT

Textile Sector is the backbone of Pakistan's economy. The ills faced by the sector and its contribution towards economic development.



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1. OVERVIEW OF THE TEXTILE INDUSTRY

A textile or cloth is a flexible woven material consisting of a network of natural or artificial fibers often referred to as thread or yarn. Yarn is produced by spinning raw fibers of wool, flax, cotton, or other material to produce long strands. Textiles are formed by weaving, knitting, crocheting, knotting, or pressing fibers together.

Textiles have an assortment of uses, the most common of which are for clothing and containers such as bags and baskets. In the household, they are used in carpeting, upholstered furnishings, window shades, towels, covering for tables, beds, and other flat surfaces, and in art. In the workplace, they are used in industrial and scientific processes such as filtering. Miscellaneous uses include flags, backpacks, tents, nets, cleaning devices such as handkerchiefs and rags, transportation devices such as balloons, kites, sails, and parachutes, in addition to strengthening in composite materials such as fiberglass and industrial geotextiles. Children can learn using textiles to make collages, sew, quilt, and toys.

Textiles used for industrial purposes, and chosen for characteristics other than their appearance, are commonly referred to as technical textiles. Technical textiles include textile structures for automotive applications, medical textiles such as implants, geotextiles (reinforcement of embankments), agro textiles (textiles for crop protection), protective clothing (e.g. against heat and radiation for fire fighter clothing, against molten metal for welders, stab protection, and bullet proof vests).

Textiles can be made from many materials. These materials come from four main sources: animal (wool, silk), plant (cotton, flax, jute), mineral (asbestos, glass fiber), and synthetic (nylon, polyester, acrylic). In the past, all textiles were made from natural fibres, including plant, animal, and mineral sources. In the 20th century, these were supplemented by artificial fibers made from petroleum.

The textile industry is primarily concerned with the production of yarn, and cloth and the subsequent design or manufacture of clothing and their distribution.[12]

The textile sector of Pakistan is considered to play a central role in the economy of the country. Increase in the cotton production and expansion of textile industry has been impressive in Pakistan since 1947. Cotton – bales increase from 1.1 million bales in 1947 to 10 million bales by 2000. Number of mills increased from 3 to 600 and spindles from about 177,000 to 805 million similarly looms and finishing units increased.

The textile industry in Pakistan can be broadly categorized in two divisions, a large scale organized sector and a fairly disjointed cottage / small-scale sector. The different sectors that form part of the textile value chain are: [12]

Spinning

Most of the spinning industry operates in an organized manner with in-house weaving, dying and finishing facilities.

Weaving

It comprises of small and medium sized entities and ranges from ill-organized house hold setups to moderately organized larger units.

Processing

The processing sector, comprising dyeing, printing and finishing sub-sectors, only a part of this sector is operating in an organized state, able to process large quantities while the rest of the units operate as small and medium sized units.

Printing

The printing segment dominates the overall processing industry followed by textile dyeing and fabric bleaching.

Garment Manufacturing

The garments manufacturing segment generates the highest employment within the textile value chain. Over 75% of the units comprise small sized units.

Knitwear

The knitwear industry mostly consists of factories operating as integrated units (knitting + processing+ making up facilities). Later in the text, all the above mentioned segments are discussed in detail with relevant share in total exports.

The Textile and Clothing Industry has been the main driver of the economy for the last 50 years in terms of foreign currency earnings and jobs creation and it is expected that this industry will continue to be of vital importance for future growth of the economy.

2. RESEARCH STUDY PURPOSE & METHODOLOGY

The research is intended to analyze the Textile Sector in the country and its potential of productivity and investment and more specifically the capacity to generate revenue for the Government of Pakistan in the form of Taxes. The study highlights the economic effects of the textile industry in the country as a whole. The transformation brought about by the textile sector in the social fabric of the nation has also been studied. The impact of prevailing socio-economic condition and law and order situation has also been highlighted. The performance of textile sector vis-à-vis production and revenue generation has been compared with that of the neighboring countries. Finally the study also tries to bring out the problems and issues faced by the textile industry particularly with reference to taxation and revenue contribution. A consumer's perspective has also been acknowledged in the study.

The study is mainly based on literature review due to time and financial constraints. Various books, researches and articles relevant to the subject have been perused and a thorough synthesis is presented here after careful analysis.

2.1 Literature Review

Literature review stands out as the main tool of the research study. Data related to the Textile Sector was meticulously collected. Sources of data include books, newspapers, journals, tax journals, economic magazines, research reports of various educational institutes and internet. A wide range of research reports on the Textile sector of the economy have been examined. Research papers and articles from different leading institutions of the country have been thoroughly studied. Articles in the newspapers and journals relevant to the subject have also been examined in detail. In addition, studies conducted by market and business institutions have been analyzed.

3. INTRODUCTION

Pakistan is the 8th largest exporter of textile products in Asia. This sector contributes 9.5%[12] to the GDP and provides employment to about 15 million people i-e 30% of the 49 million work force of the country. Pakistan's share is less than one percent in the volume of total world textile trade of about US$18 trillion per annum. Pakistan is the 4th largest producer of cotton (~12mln bales/yr), with the third largest spinning capacity in Asia after China and India, and contributes 5% to the global spinning capacity[12]. Since the founding of Pakistan, the development of the Manufacturing Sector has been given the highest priority with major stress on Agro-Based Industries. For Pakistan which was one of the leading producers of cotton in the world, the development of a Textile Industry making full use of its abundant resources of cotton has been a priority area towards industrialization. At present, there are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units which produce textile products.[12]

Despite these troubles the textile industry total export is around 10.2 billion US dollars[12]. The textile industry contributes approximately 9.5 percent of the country's GDP and continues to be the mainstay of Pakistan's exports comprising ~52% of total exports and also represents the principal employment-generating avenue in the organized and large scale industrial segment[12]. Following table depicts the textile exports for the years of 2008-09 and 2009-10[5].

Since independence, Pakistan's textile sector has gradually ventured into the production of fairly high quality counts, hosiery, garments and other value-added items. Today Pakistan has an integrated textile industry comprising cotton spinning (yarn), cotton weaving (cloth), cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and Apparels. These are manufactured both on large scale as well as in small & medium cottage units[3]. A brief description of each segment is as such:

3.1 Cotton Spinning

a. Introduction

This segment is the most important segment in the hierarchy of textile production. At present, it comprises 521 textile units (50 composite units and 471 spinning units) with installed and operational capacity of ~12mln and 10.1mln spindles, respectively.

b. Process:

Spinning is a major textile manufacturing process where fibers are converted into yarn, then fabric and then textiles. Spinning is the twisting together of drawn out strands of fibers to form yarn. The pre-industrial techniques of hand spinning with spindle or spinning wheel continue to be practiced as a handicraft or hobby, and enable wool or unusual vegetable and animal staples to be creatively used.[1]



Hand Spindle. Source: www.wikipedia.org



Industrial Spinning. Source: www.wikipedia.org

3.2 Cloth / Weaving Sector

a. Introduction

The pattern of Cloth Production is different than spinning sector. There are two different sub-segments in weaving. (a) Mill segment (Integrated and Independent Weaving Units), and (b) Non mill segment (Power Loom Units). The Power Loom Sector have modernized and registered a phenomenal growth over the last two decades. By the year 2010 the installed capacity of power looms in Pakistan was estimated to be about 8000 looms.[12]

The production of cloth sector is shown in following table[14].

Production(M.sq.Mtrs.)	2008-09	2009-10	%age change
Mill Sector	763,383	762,420	-0.13
Non Mill Sector	895,454	5886,393	-0.15
Total	**6658,837**	**6648,813**	**-0.15**

Source: Ministry of Textile

b. Process

Weaving is a method of fabric production in which two distinct sets of yarns or threads are interlaced at right angles to form a fabric or cloth. The other methods are knitting, lace making and felting. In general, weaving involves using a loom to interlace of two sets of threads at right angles to each other.[1]



A power loom. Source: www.wikipedia.org

3.3Textile Made-Up Sector

This is the most dynamic segment of Textile Industry. Being a value added segment of the industry, it comprises of different product sub-groups which are discussed as follows[7]:

a. Hosiery Industry

i. Introduction

Hosiery, also referred to as leg wear, describes garments worn directly on the feet and legs. The term is also used for all types of knitted fabric, and its thickness and weight is defined in terms of denier or opacity. There are about 12,000 Knitting Machines spread all over the country. The Capacity utilization is approx 70%. There is greater reliance on the development of this industry as there is substantial value addition in the form of knitwear. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made and the capacity based on exports is being developed.

ii. Process

Most hosiery garments are made by knitting methods. Modern hosiery is usually tight-fitting by virtue of stretchy fabrics and meshes.[1] Knitting may be done by hand or machine.



Industrial Knitting. Source: www.wikipedia.org

b. Readymade Garment Industry

i. Introduction

The Garment Industry provides highest value addition in Textile Sector. The Industry is distributed in small, medium and large scale units most of them having 50 machines and below, large units are now coming up in the organized sector of the industry. The industry enjoys the facilities of duty free import of machinery and Income Tax exemption. This sector has tremendous potential. Export remained under pressure.

ii. **Process**

Garment manufacturing process includes designing, sketching, sample making, grading, spreading, cutting, sorting, Sewing/assembling, Inspection etc.[3]

c. Towel Industry

There are about 7500 Towel Looms in the country in both organized and unorganized sector. This Industry is dominantly export based and its growth has all the time depended on export outlets. The existing towels manufacturing factories are required to be geared up to produce higher value towels.

d. Tents & Canvas

This is the highest raw cotton consuming sector. The production capacity is more than 100 million Sq. Meters. This value-added sector has also great potential for export. The 60% of its production is exported while 40% is consumed locally by Armed Forces, Food Department. Pakistan is the cheapest source of supply of Tents and Canvas.

3.4Synthetic Fiber Manufacturing Sector

Synthetic Fibers are made from synthesized polymers or small molecules. The compounds that are used to make these fibers come from raw materials such as petroleum based chemicals or petro-chemicals. Although many classes of fiber based on synthetic polymers have been evaluated as potentially valuable commercial products, four of them - nylon, polyester, acrylic and polyolefin - dominate the market. These four account for approximately 98 per cent by volume of synthetic fiber production, with polyester alone accounting for around 60 per cent.[1]

This sector has made progress in line with demand of the Textile Industry. Polyester Staple Fibre (PSF) has wide range of applications. Its main use is the production of blended yarns by the spinning industry, which in turn is used to produce cloth, garments and curtains etc. Currently, there are five major producers of PSF in Pakistan with the total capacity of about 636,000 tons per annum[7].

3.5 Filament Yarn Manufacturing Industry

Filament yarn consists of filament fibers (very long continuous fibers) either twisted together or only grouped together. Thicker monofilaments are typically used for industrial purposes rather than fabric production or decoration. Silk is a natural filament, and synthetic filament yarns are used to produce silk-like effects.[1] The Synthetic filament yarn manufacturing industry picked up momentum during 5th Five Year Plan when demand raised and hence imports increased and private sector was permitted to make feasible investment in the rising market conditions. Today following three kinds of filament yarn are manufactured locally:

S. #	Type of Yarn	No of Units	Production Capacity
1.	Acetate Rayon Yarn	1	3000 (M.Tonnes)
2.	Polyester Filament Yarn	21	105376 (M.Tonnes)
3	Nylon Filament Yarn	3	2000 (M Tonnes)
		Total	10,000 (M.Tonnes)

Source: Ministry of Textile

Currently there are 6 units in the country with operational capacity of 55851 M. Tons polyester filament yarn.[5]

3.6 Art Silk and Synthetic Weaving Industry

Artificial silk or, in textile terminology, *Art silk* is a synthetic manufactured fiber which resembles silk but costs less to produce. Frequently, *art silk* is just a synonym for rayon.[1] Art Silk and Synthetic Weaving Industry has developed over the time on cottage based Power Looms Units comprising of 08_10 looms spread all over the country. There are approximately 90,000 looms in operation of which 30,000 looms are working on blended yarn and 60,000 looms on filament – yarn. Besides, there are some mobile looms which become operational on market demand. The major concentration is in Karachi- Faisalabad, Gujranwala, and Jalalpur Jattan as well as in the un-settled area (Bare – Swat – Khyber Agency and Wazirstan).

3.7Woolen Industry

The main products manufactured by the Woolen Industry in Pakistan are are Woolen Yarn of 6.864 M.
kgs, Acrylic yarn 6.960 M. kgs, Fabrics 3,445 (M.sq.meter), Shawls 13.353 Million, Blanket 657,235,and Carpet 3.5 (M. Sq. meter).[5]

3.8Jute Industry

The main products of this industry – jute sakes and hessian cloth – are used for packing of food grains, wheat, and rice. The production of jute goods went upto 98,753 metric tones for the period of Jul-Mar 2009-10, observing a modest increase of 6.6% as compared to Jul-Mar 2008-9[5].

4. CONTRIBUTIONS OF TEXTILE SECTOR

Since independence, textile sector has grown considerably in extent and magnitude despite intermittent set-backs due to ill-conceived policy and neglect of the needs of time. Despite its meager strength and strong need for developing further potential it has grown to become the backbone of the economy. This fact can easily be grasped by a mere glance at the contributions this sector has made to the economy and society of the country as a whole.

4.1 Economic Contributions

Any development in the country does not restrict its effects to one or two sectors rather, the implications of any such development can be felt across multi-sector pathways. Same has been the case with Textile sector. Here, the discussion is limited to the contributions and effects of development in Textile industry to the Economic and Social spheres of the country.

a. Increase in National Income

Any development in the industrial sectors greatly contributes to the Gross Domestic Product of country. Currently, Textile sector alone contributes 9.5% to the GDP. Development of industrial sector means more investment, employment and production and hence, higher contribution towards GDP.

b. Contribution to taxes

The textile industry's overall contribution of taxes in 2011-12 is expected to reach Rs. 23.5 billion, including payments of withholding taxes and applicability of lower rate of sales tax of 4%-6% on local supplies. Textile exports stood at $12.5 billion from July 2010 to May 2011. During the current fiscal year, the tax department collected Rs. 10.5 billion as 1.0% withholding tax. Similarly, textile industry contributed Rs. 2.5 billion at the rate of 0.25% as Export Development Fund (EDF). Break-up shows that the applicability of lower rate of 4%-6% sales tax on local supplies would contribute an additional amount of Rs. 11 billion, annually, to the national exchequer. Moreover, the collection of withholding tax amounted to Rs. 10.5 billion during ongoing fiscal year.

c. **Economic Stability**

Growth in Textile sector has immensely contributed towards economic stability of the country. This sector alone employs 15 million work force of the country. Moreover, when the finished goods are domestically available, it helps keep prices down and fluctuations due to international market influences are less likely to strike populace.

d. **Improvement in Balance of Payments**

Textile industry has brought structural changes in the pattern of foreign trade of the country. Today, the Textile sector account for about US$ 10.2 billion export of the country. On one hand, this sector helps reduce import bills of textile products and on the other hand, it contributes in earning foreign exchange thereby helping towards keeping balance of payment in control. Following table presents a comparison of years 2008-09 and 2009-10 with respect to exports of different textile products.

(Thousand US Dollars)

Textile Exports	**2008-09**	**2009-10**	**2008-09**	**2009-10**	**%age Change**
Raw & Processed Cotton	241,979	340,185	2.48%	3.34%	40.58%
Cotton Yarn	1,058,954	1,283,994	10.83%	12.62%	21.25%
Cotton Cloth	2,106,840	1,879,459	21.55%	18.47%	-10.79%
Knitwear	2,054,853	2,060,727	21.02%	20.25%	0.29%
Bed Wear	1,526,642	1,640,869	15.62%	16.12%	7.48%
Towels	546,591	602,867	5.59%	5.92%	10.30%
Ready-made Garments	983,443	962,481	10.06%	9.46%	-2.13%
Other Textile Materials	1,256,996	1,406,549	12.86%	13.82%	11.90%
Total	**9,776,297**	**10,177,131**	**100.00%**	**100.00%**	**4.10%**

Source: Pakistan Credit Rating Agency

e. **Agricultural Development**

Development in Textile sector greatly affected the agricultural development in turn. It is evident from the fact that if number of textile mills increased from 3 to 600 and spindles from about 177,000 to 805 million respectively in 1947 to 2010 then cotton –

bales increased from 1.1 million bales in 1947 to 10 million bales by 2010. Increased demand of cotton contributed towards better life of farmer by offering greater market for the raw material.

f. **Greater Employment**

As already mentioned, this sector employs about 15 million or 38 percent of total workforce of the country. If the employment rate is added with the upstream and downstream employment, like in agriculture or export related work opportunities due to this sector then the economic effect of this sector increased manifold.

g. Collateral Industrial Development

Development of one industry leads to the development and expansion of other industries. A number of industries and work opportunities are directly or indirectly related with Textile Sector. For example, colours and dies, plastics, printing, machinery etc are equally affected by booms or busts in Textile sector.

h. **Enhanced Government Revenues**

Any industrial development is bound to increase government revenues. Though textile sector is still zero rated for the purposes of sales tax on exports yet the tax on domestic supply and income tax contribute greatly to government revenues.

i. **Diversification of Economy**

Development in textile sector has helped in diversifying economy by reducing dependence on mere production and export of raw material. It also instilled diversification by stimulating collateral industrial development.

4.2Social contributions

a. Better Living Standards

Textile sector development helped in increasing the value of output per worker. The income of the labor, due to higher productivity increased resulting in better living standards of growing middle class.

b. Social Welfare

Growth in textile sector enhanced social welfare in a multitude of ways. Better and greater employment opportunities, meeting domestic needs, generating revenue and thereby positively affecting public social spending etc all lead to social welfare.

5. ILLS FACED BY THE TEXTILE INDUSTRY OF PAKISTAN

Textile industry currently faces massive challenges. Despite introduction of five-year Textile Policy, implementation is yet to be seen. This implies high policy risk for the sector. Moreover, efforts to achieve preferential access to EU market are materialized, but the legislation has been challenged by competing EU countries. Rising cotton prices have pushed raw material costs substantially high, making it difficult for small players in the industry to survive.2

In addition to that power loom sector is affected mainly by poor technology, scarcity of quality yarn and lack of institutional financing, hindering its development from unorganized sector to an organized one.

However, notwithstanding its important role, currently the Textile Industry of Pakistan is facing multiple problems that are discussed below:

5.1 Financial Problems

For the functioning of any industry the greatest issue has always been the one related to money. Proper financing is very important for the development an industry. Unfortunately, our Textile Industry is facing a lot of financial problems, some of which are given as under:

a. Domestic Issues

The State Bank of Pakistan has withdrawn export financing on all types of yarn. Moreover, all Banking Companies offer a very high rate of mark up to all Textile Industries. In the past, all types of lending were made at very nominal rates and a liberal atmosphere of lending was created. In recent past we have observed a vertical shift in the monetary policy and KIBOR rates have been increased to multiple extent.[4] The high cost of doing business is because of intensive increase in the rate of interest which has increased the problems of the industry. The record increase in markup rates is one of the major cause of defaults in servicing the loans availed by the industry, hence, the volume of non-performing loans has reached to an alarming situation.[5]

Most of the Banks are reluctant to finance the private corporate sector. They are more inclined towards the public sector. In addition, Pakistan as a whole is facing an acute problem of low foreign investment.

Common belief in Pakistan is that the sector is quite vibrant and is investing heavily. While it is true that there have been substantial investments in the sector as a whole, bulk of the investments are in the spinning and weaving sectors and not enough is being invested in the value added sectors of finishing and stitching.

b. Global Recession

Global recession has badly affected the textile sector of Pakistan. This recession caused a very high rate of inflation, which, in 2010, had increased to a whopping 25% as compared to a 7.9% of 2008. What occurred afterwards is what we call the domino effect. The value of the Rupee crashed from 60-1 USD to 80-1 USD in only a month, the prices of commodities soared through the roof, the number of people living below poverty line

increased from 60 million to 77 million, and consequently, the working class layman became virtually deprived from basic necessities like water, wheat, electricity, natural gas, and cooking oil; add to all this, the preposterous amounts of load-shedding, and what we get is a nation in shambles.

The above all situation of the economy badly affected the textile industry. The demand for textile product cut down locally & internationally as well. The export order reduced due to unpredictable conditions of Pakistan & political instability. The cut down in the production of textile cause further unemployment level which decrease the living standard of peoples[2].

5.2Taxtile Input Issues

Increasing trend in the cost of inputs has become common practice in our Country due to which Industries cannot compete in the markets. Due to increase in prices of inputs used in manufacturing process like Electricity, Sui Gas etc, our Textile Industry sells its products at higher prices due to multiplied cost of production. Increase in the prices of cotton and yarn is also a great problem. On the other hand imported/smuggled goods are commonly available in the markets at much cheaper prices. Chinese Goods are one of the best examples, which are available throughout the country at much lower prices. The lack of research & development (R&D) in the cotton sector of Pakistan has played no less part in compounding troubles for this sector and the result is a low quality of cotton in comparison to rest of Asia. Available cotton seeds have a higher moisture content and the resulting crop is of lower quality.

5.3Taxation Issues

There are a huge number of problems that our Textile Industry is facing with respect to taxation. The greatest issue is that there is almost no tax on exports that discourages the local industry. Other problems are listed below:

a. Reformed Sales Tax

The Textile Industry was one of those five industries of Pakistan that enjoyed cent percent Zero rating facility, which means that their products are not subject to any sales tax. This exemption was given by the government through SRO 509 (I)/2007 dated 9th June, 2007. But recently a new SRO 231(I)/2011 dated 15th March, 2011 has been issued to have changes in the previous one. The applicability of the new sales tax regime for textile sector has become applicable from April 1, 2011 instead of date of the promulgation of the Presidential Ordinance or issuance of relevant notification i.e., March 15, 2011. This new SRO finished the facility of 100% zero rating and imposed a tax of 4% if the finished fabrics have been sold to the un-registered persons like wholesale market. The 4 percent sales tax will be charged at all stages subsequent to spinning stage if registered person sells goods to the un-registered buyers. Zero-rating facility would be available to the registered buyers at the local stage. 6 percent sales tax would be applicable at yarn stage. However, 100% zero rating facility has been retained for the exporters.

All the stakeholders have refused to accept this reformed sales tax regime.[6] They lamented that the move had been taken without consulting the stakeholders and it would result in flight of capital and relocation of industry to other regional countries and create massive unemployment.[7]

b. Sales Tax Refund

The sales tax refund rules provide for 50% of the refund within 15 days of filing for the refund in a certain format. The balance refund is payable within 40 days. Pakistan is the 4th largest producer of raw cotton in the world and the bulk of the cotton comes in the months from September to December during which time the industry purchases its requirements for the bulk of the industry. The pretext of the delayed refunds is scarcity of funds. When the government withholds huge payments of its industry, how the industry can invest. Inordinate delay in refund of Sales Tax on zero-rated exports was unanimously identified as the single most important problem retarding the growth of the Textile industry and its exports.

Talking to Business Recorder, Chairman Pakistan Readymade Garments Association, Ijaz Kokar, said that the country's industry had a very bad experience with the refund mechanism and currently Rs 50 billion was lying with the government as duty drawbacks and refund regimes of the textile sector.[6]

c. Import Duty

When machinery is imported, a duty is levied. Duty exemption is available under various SROs which require undertakings that a certain percentage of the production is exported in the next 5years. When an undertaking is given that the production from that unit will directly be exported, it may be depriving the local industry of the required raw material. An example is that finished woven fabrics. These are projects which require huge investments and there is a shortage of much required quality finished fabric in the country. There have been only a few projects set up in the last few years. The production from these would feed the local industry. In order to get the required duty exemptions, the investors commit themselves to export the fabrics themselves rather than supply to the local garment factories. If quality fabric is available locally, it would encourage setting up of stitching factories. Pakistan does not have the necessary know how and therefore these types of projects need to be encouraged instead of levying taxes on import of machinery. What this law does not consider is that it is forcing the mill to export the fabric to another country rather than making the finished fabric available of the domestic industry. The local stitching industry does not have availability of good quality fabric while the fabric maker is forced to export the fabric in order to meet the requirement of export to be eligible for duty free import of machinery.

d. Withholding Taxes

Presently on exports a withholding tax is deducted as full and final settlement of tax liability. The rate of this tax is different on different stages, for example, the rate of deduction of withholding tax on the local supplies, sales and services provided or rendered to the Textile Industry is 1% and the same rate applies for the import of all goods covered by the zero rating regime of sales tax notified by FBR. Also the Textile Industry becomes a withholding agent if its local sales are in excess of 5% of its export sales. There is no

exemption from this tax even for exports. The industrialists regard this rule of withholding tax as "Black Law".[8]

e. Exemption certificate

Where ever an exemption from tax is granted, it cannot be executed without an exemption certificate. This exemption certificate is issued by the commissioner in accordance with the tax laws and is issued from for a certain period of time. Earlier this time was three months but recently has been increased to one year. After every one year the industrialists have to undergo a difficult procedure for the reissuance of this certificate.[8]

f. Minimum Tax

This tax is also called Turnover tax. Presently, the rate of minimum tax for the yarn merchants is 0.1% on their annual turnover.[8] Also there is a minimum tax of 0.5% on the turnover of the domestic sales. The submission of this tax needs filing of return and other documents that really pose great problems for the industrialists.

g. Special Excise Duty

The government has raised special excise duty from one per cent to 25 per cent.[7] which has again added to the problems faced by the Textile Industry.

5.4 Energy Crises

In spite of the rates of utilities in Pakistan being higher than competing countries, their tariffs are increased on regular basis making the industry un-competitive. The cost of production has also risen due to instant increase in electricity tariff.

As a consequence of load-shedding the textile production capacity of various sub-sectors has been reduced by up to 30 percent which, along with other consequences, has also reduced the export order. Due to load shedding some mill owner uses alternative source of energy like generator which increase their cost of production further. Due to such dramatic situation the capability of competitiveness of this industry in international market affected badly.[9]

A spokesman for the All Pakistan Textile Mills Association (APTMA) claimed that 60 to 70 per cent of the industry had been affected and was unable to accept export orders coming in from around the globe, as a result of gas load shedding.[10]

Another jerk has been given to the industry in the form of a "Two-day weekend" for the conservation of energy. Either adequate energy resources are unavailable to the industry or the prices of fuel are out of range of the industry.

The textile industry being an energy intensive sector is vulnerable to a higher rate of energy losses across various production processes resulting in higher energy bills, and productivity losses- all of which have significant financial impact.[4]

5.5 International Competition

The industry is facing competition from other developing countries like Bangladesh, India and China in its major export markets i.e. the EU and the USA. Also the current recession in the West has resulted in a slowdown in demand for textile products. Due to all the other problems faced by the Textile Industry, its production capacity and quality is getting low. So Pakistan is lagging behind its competitors in the sphere of this international and regional competition. This is a huge threat to the Textile Industry of Pakistan.

5.1 Environmental issues

While confronting with cutting down environmental burdens, the textile sector of Pakistan will have to face one of the biggest challenges facing of complying with

international environmental protocols. Almost every major textile group has its own power plant being run by using fossil fuel, emitting toxic effluent into the air as well as generating major environmental concerns for ground water. Textile processing employs a variety of chemicals, depending on the nature of the raw material and products, with different enzymes, detergents, dyes, acids, sodas and salts. Industrial processes also generate wastewater containing heavy metal contaminants. According to World Health Organization (WHO) the metals of most immediate concern are chromium, Zinc, iron, mercury and lead. The fate of these chemicals varies, ranging from 100% retention on the fabric to 100% discharge with the effluent. Most of these metals are non-degradable into non-toxic end products. Experts say that textile wastewater contains substantial pollution loads in terms of COD, BOD, TSS, TDS and heavy metals. The values of these parameters are very high as compared to the values in National Environment Quality Standards (NEQS) set by the government.[11]

5.1 Miscellaneous Problems

Deteriorating political, law and order situation in the Country is one of the major reasons of Industrial down turn. Industrial activity cannot flourish in an atmosphere of disturbances and fear.

In Pakistan, more attention is given to unorganized sector, which includes very small companies and cottage industries. They are given more tax relaxation and other facilities. This is a threat for large units.

Pakistan is a country where policies are rapidly changed even in days and weeks. Without long term and consistent policies no industry, in the country, can develop properly.

Pakistan’s textile industry is going through one of the toughest period in decades. Depreciation of Pakistani rupee has raised the cost of imported inputs. Pakistan's textile exports

have gone down during last three years as exporters cannot effectively market their products since buyers are not visiting Pakistan due to adverse travel advisory and it is getting more and more difficult for the exporters to travel abroad. Although we are 4th largest producer and 3rd largest consumer of cotton but unfortunately now we are at number 12 in the international trade of textile products.[5]

The workers working in Textile Industries are not satisfied with their working conditions. Their wages are not up to the mark. Even the environment provided in the industries is very injurious to their health.

The textile industrialists were greatly concerned over the adverse publicity inflicted on the country's image as a consequence of the events of 11 September 2001 and the recent terrorist attacks within the country. Undue war risk surcharge has been levied by all foreign shipping lines on consignments from and to Pakistan and fewer airlines are touching Pakistan airports due to which freight cost of exports has considerably increased. They urged the government to formulate and earnestly implement business friendly and export facilitating policies.

Moreover, critics argue that the textile industry has obsolete equipment and machinery. The inability to timely modernize the equipment and machinery has led to the decline of Pakistani textile competitiveness. Due to obsolete technology the cost of production is higher in Pakistan as compared to other countries like India, Bangladesh & China.

Textile crisis is becoming severe in the Country due to over all recession and slow down of economies around the globe. Our Textile sector is heavily export oriented. International sales in Textile Markets suffered a lot as a consequence of which manufacturers and traders who supply goods & services to exporters have suffered heavy losses. Such suppliers to direct exporters are usually operating at small or medium scale and they remains at the mercy of export houses. Power loom sector is worst example of such a hard hit from direct exporters, majority of which enjoys status of Corporate Entities. According to the norms of trade small scale suppliers of grey fabrics provide woven fabrics to exporters without any documented arrangements enforceable at law. They work on “Kachee Parchi” system and have no security regarding their debts with exporters.[4]

The Textile Industry of Pakistan also lacks skilled human capital. This is one of the major concerns of the industry. The increase in inflation has caused the increase in the cost of production of textile goods which return in downsizing. The double digit inflation has caused reduction in exports of textile.[103]

6. REMIDIES

When we talk about issues and evaluate them, we see that these are not new; they have been in existence since a very long time and relate to fundamentals of the textile business

The time now is to address questions like why our Industry is vulnerable to these cyclical downturns, why can't we sustain growth and economic performance on a sustainable basis. We need to chalk down a strategy to diagnose and solve issues with a long-term perspective to meet the challenging tasks of the textile sector.

Furthermore, APTMA being the largest and well organized institution has the ultimate responsibility to help facilitate an environment and socio-economic climate necessary for the positive performance and viability of member mills. The need of the hour for APTMA is to address these issues.

6.1 Input Related Remidies

a. Immediate arrangements are needed to replace the present poor quality deteriorated seed by new and promising varieties of seed. An arrangement needs to be finalized on a war footing basis to introduce culture of high quality cotton seed in Pakistan with the target to increase production of Cotton up to 20 million bales in next 3-5 years.

b. Join World Cotton Producers effort to standardize Cotton Grading on the basis of Instrumentation.

c. To participate and actively promote Better Cotton Program Certification.

d. Pursue production of organic, Long and Extra Long Cottons in Pakistan if possible.

e. Have all constrains and bottlenecks removed to make Wahga an efficient point for cotton imports from India.

f. Initiate a formal program for regular interaction with Growers and Ginners, particularly to improve the spin ability and quality of cotton.

g. Adopt modern technology for harvesting of cotton crop to minimize losses. All ginning units should be updated and modernized to improve quality and to

standardize ginning system. Cotton Standardization should be introduced immediately at ginning stage to improve lint quality to international standards.

6.2Remedies to energy crisis:

The gas tariffs for textiles units should be freezed at the current level for at least next 3-5 years. Coal based power generation to be explored on a priority basis, utilizing the abundant availability of coal reserves.

The import of electricity is an option even for short/medium term, to meet the high growth rates of demand in the country. Thermal efficiency of WAPDA and other Public Sector Units be enhanced to at least 60% to 70% so the ultimate savings can be passed on in the form of lower KWH price to the Industry. Unchecked increase in the prices of utilities should be discouraged. Maximum facilities should be provided to the industries using their own alternate energy generating plants. Adequate arrangements are needed to avoid energy losses due to negligence.

6.3Financial Remidial Measures

The concept of Reconstruction Opportunity Zones (ROZs) with the United States and Free Trade Agreement (FTA) with the European Union should be pursued. Anti Dumping Duty and other Countervailing Measures should be tackled with a long-term perspective. Tapping of new & Non-Traditional Markets and establishment of Warehouses and Display Centers is suggested for better growth of textile sector. Government should provide maximum credit facility to businessman so that they will be able to meet there all financial needs and carry on their business.

More investment in the sector is the need of the hour. The cooperation of the banking sector is extremely important in this purview. They should entertain the textile sector in proper manner so that the sector may have loans on easy conditions and at low mark up rates as provided in other countries which are in competition with Pakistan.

6.4HUMAN RESOURCE DEVELOPMENT

Development of Human Resource be considered as an asset for the sector because lesser number of skilled and trained employees are more beneficial for a company rather than number of un-skilled and illiterate workers. Following measures should be adopted to enhance the productivity of the company as well its employees:

a. Focus on education, training and skill development.
b. Respect for human Rights, gender balance, and eradication of child, bonded labour and promote dignity of labour.
c. Harmonized labour management relations.
d. Productivity and development based work culture.
e. Vocational training outside all industrial estates

6.5SME's Promotion

Our country is developing country and we should establish small and medium enterprises (SME) Instead of large scale because we have less finance to run large scale industry. It will also benefit the local people.

6.6Labor Intensive Industries

Our Country should establish labor intensive industries instead of capital intensive industries because we have cheap labor and we have shortage of capital.

6.7Taxation solutions

Governments should charge Minimum taxes from industrialists. So that they may not be discount maximum tax concessions should be given to businessman. Sales Tax should be restored in the earlier form and 100% zero rated facility to be restored.. Tax credits and refunds should be provided to the industrialists on easy disposal and within minimum possible time. Documentation, just to create problems for the sector, should be

avoided. Tax payer friendly tax policies should be made to the maximum extent. Too much of the surcharge or additional tax should not be imposed on the industrialists.

6.8 Industrial Cities & Zones

Government should establish maximum industrial cities and zones where every facility should be provided to industrialists easily and at low rates. Tax free zones and tax holidays would be a good suggestion.

6.9 Offer Peaceful Environment

Government should maintain law and order in country so that security of life and property will be given to business and they will feel comfortable and will be ready to invest in country. Industrial activity cannot flourish in an atmosphere of disturbances and fear.

6.10 National Saving Promotion

Governments Should Promote saving Culture in the Country by introducing different attractive schemes to public of country. Long term and consistent policies are needed in this respect.

6.11 Foreign Investment promotion

Governments should attract foreign investment by giving maximum facilities to foreign investments. In this way deficiency of investment can be made up. Media can help in this regard by posing a good image of Pakistan in the global scenario.

6.12 Environmental remedies

Proper disposal of industrial wastes should be ensured. The standards and policies of WHO and other international organizations to be followed strictly. Government should ensure that all the industries of the country are abiding by these rules and regulations. Carbon consumption should be minimized by using renewable sources of energy to

control the ever increasing global warning. Proper measures should be taken while keeping in view the health of the workers.

7. Conclusion

Pakistan's textile industry is going through one of the toughest periods in decades. The global recession which has hit the global textile really hard is not the only cause for concern. Serious internal issues such as the hike in electricity tariff, the increase in interest rate, energy crisis, devaluation of Pakistani rupee, increasing cost of inputs, political instability, removal of subsidy & internal dispute. also effected Pakistan's textile industry very badly. The high cost of production resulting from an instant rise in the energy costs has been the primary cause of concern for the industry. Depreciation of Pakistani rupee during last year which has significantly raised the cost of imported inputs.

Furthermore, double digit inflation and high cost of financing has seriously affected the growth in the textile industry. All factor increase the cost of production which decreases the exports consequently increasing unemployment level. Pakistan's textile industry is lacking in research & development (R & D).The production capability is very low due to obsolete machinery & technology.

Given the fact that this industry still provides the major share of exports and employment opportunities, there is more than a greater need for steps in right direction to revive it. In the past, policy making process neglected the importance of value addition in acquiring greater magnitude of exports and foreign exchange. Industry output is dominated by low-value added products, implying thin margins and low differentiation within product catogories. Moreover, there is need to attend towards quality control as our yarn and apparel products from finer counts are highly vulnerable to international competition.

Through review of the sector suggests that though this sector suffers a number of weaknesses, it commands a few strengths and hence opens avenues for opportunities. Following is presented a SWOT analysis of the textile sector of Pakistan.

Strengths

- Self reliance
- Manufacturing flexibility
- Abundance of raw material production

- Design expertise
- Availability of cheap labour
- Growing economy and domestic market
- Progressive reforms

Weakness

- Highly fragmented sector
- High dependence on cotton
- Lower productivity
- Declining mill segment
- Technological obsolescence
- Non-participants in trade agreements

Opportunities

- End of quota regime
- Shift in domestic market to branded readymade garments
- Increased disposable income
- Emerging mall culture and retail expansion

THREATS:

- Stiff competition from developing countries; especially China and India.
- Pricing pressure
- Locational disadvantage
- International labour and environmental laws

Our textile sector needs to capitalize on the new emerging opportunities by adhering to global best practices, adapting rapidly changing technologies, better supply chain management while trying to reach global value chains.

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